



Georgia Department of Early Care and Learning

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**Nathan Deal**  
*Governor*

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*Commissioner*

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## MEMORANDUM

To: All Institutions and Sponsors Participating in the Child and Adult Care Food Program (CACFP) and the Summer Food Service Program (SFSP)

From: Falita S. Flowers, Nutrition Services Director (*Original Signed*)

Date: September 15, 2016

Subject: Excess Funds in the CACFP and SFSP

The purpose of this memorandum is to provide guidance on the proper procedures for CACFP institutions and SFSP sponsors to follow when accumulating an excess balance of CACFP or SFSP funds in their Program food service accounts. This memorandum also provides additional guidance on the use of those funds for institutions operating both the CACFP and the SFSP. This guidance replaces DECAL policy memorandum, *Excess Funds in the CACFP and SFSP*, December 1, 2015.

CACFP institutions and sponsors are required to operate a non-profit food service, which means, all food service operations conducted by the institution principally for the benefit of enrolled participants, from which all of the Program reimbursement funds are used solely for the operations or improvement of such food service. Moreover, managing a nonprofit food service does not require that a sponsor break even or operate at a loss. The nonprofit compliance is determined by the use of the nonprofit food service revenues. All income to the Program must be retained and used for the sole purpose of operating a nonprofit food service. Institutions and sponsors are limited to allocating costs to the Program for allowable expenses of serving meals to eligible participants [7 CFR 226.2, USDA Policy Memorandum SFSP 10-2015]. Overall, institutions and sponsors must ensure their food service reimbursement is used to operate their food service program and enhance the Programs where applicable.

DECAL determines an institution is operating a nonprofit food service by:

- Identifying all non-profit food service Program revenues, including:
  - CACFP or SFSP reimbursements (for SFSP, includes prior year excess funds);
  - Income to the Program;
  - All other funds used or restricted for use in the non-profit food service Program;
- Identifying all allowable Program net expenses incurred in the operation or improvement of the nonprofit food service Program when determining food costs;
- Deducting all allowable net expenses;

- Identifying the excess of all nonprofit food service revenues over nonprofit food service expenses; and
- Verifying that any excess of revenues or expenses is retained and/or used only in the nonprofit food service program.

Both CACFP institutions and SFSP sponsors can avoid accumulating excess funds by using their Program reimbursement for administrative payments on a first-in-first-out basis, meaning, for each reimbursement received, exhaust as much of the reimbursement on allowable costs prior to receiving the next month's reimbursement.

### **Excess Funds in the CACFP**

Similar to the National School Lunch (NSLP) and School Breakfast Programs (SBP), CACFP institutions must ensure any excess of net cash resources (excess CACFP reimbursement funds) is limited to three (3) months Program expenses [*NSLP and SBP Administrative Review Resource Manual SY 2015-2016*]. The excess may be retained or used only in the nonprofit food service Program. Limiting the size of excess funds ensures institutions are utilizing their CACFP food service account funds to improve Program operations and meal quality, so institutions are encouraged to consistently implement ways to enhance their Programs.

If more than three (3) months average expenses are retained, the nonprofit food service balance is considered "excessive." One month's average expenses can be determined by dividing the total prior year's expenses by the number of months in operation that year. If the institution/sponsor did not operate the prior year, averaging the total current months (total of all previous operating months) expenses is feasible.

When an excessive balance is discovered, the institution must immediately devise a plan to bring the excessive balance to no more than three month's average expenses. If excessive funds are discovered by DECAL, the institution will be required to submit a corrective action plan to expend the funds by a specified timeframe. In some cases, if the institution operates another Child Nutrition Program(s), with DECAL's approval, the excess funds may be used to enhance operations of the other Child Nutrition Program(s). If, however, an institution has not reduced the excessive amount as required and does not intend to use those funds on another Child Nutrition Program, DECAL may declare the institution seriously deficient.

The scenarios below demonstrate how excess funds are determined and how those funds can be properly expended:

Scenario #1: ABC Childcare spent an average of \$2,000 per month in CACFP expenses the prior year. As of June the following year, the institution has a balance of \$6,000 in their Program's food service account (non-excessive). In this example, the institution must ensure the existing balance is used only for CACFP allowable Program expenses. If the institution operates another Child Nutrition Program(s), with DECAL's approval, the excess funds may be used to enhance operations of the other Child Nutrition Program(s).

Scenario #2: XYZ Childcare spent an average of \$8,000 per month in CACFP expenses the prior year. As of June the following year, the institution has a balance of \$35,000 in their Program's food service account. In this example, the institution must immediately identify ways to reduce the account balance to no more than (3) months average expenses, which is \$24,000 ( $8,000 \times 3 = 24,000$ ). Therefore, the institution must expend the excess of \$11,000 within a specified timeframe.

### **Prior Year Excess Administrative Earnings for Sponsors of Day Care Homes**

Sponsors of day care homes are allowed to carry-over 10% of their maximum remaining administrative funds received to the succeeding fiscal year. The 10% carry-over must be based upon the total amount of administrative payments (calculated based on homes times rate) received by the day care home sponsor

over the fiscal year. If the 10% carryover funds are not expended in the succeeding year, the day care home sponsor is required to return the unused funds to DECAL. For additional policy guidance regarding the carry-over of unused CACFP administrative reimbursement, go to:

<http://www.decals.ga.gov/documents/attachments/CarryOverUnusedCACFPAdminReim.pdf>.

Administrative funds remaining at the end of the fiscal year that exceeds 10% of that fiscal year's administrative payments must be either returned to DECAL, or those funds may be potentially used for another child nutrition Program. Specifically, if a day care home sponsor intends to participate in the Summer Food Service Program (SFSP) the subsequent Summer year and has accumulated funds in excess of the 10% carryover, those funds may be retained by the sponsor and used for SFSP administrative or operational expenses (see the section below, "Transferring the Use of Excess funds between CACFP and SFSP").

### **Excess Funds in the SFSP**

When compared to the CACFP, the SFSP operates in a significantly shorter time period. Therefore, DECAL closely monitors the use of excess program funds through its **Year-end Reconciliation Process**. (See DECAL's Policy Memorandum, Simplified SFSP and Bright from the Start's Annual Year End Reconciliation Process, August 20, 2014 at:

<http://www.decals.ga.gov/documents/attachments/SimplifiedSFSPAnnualYearEndReconciliationProcess.pdf>). Any amount of reimbursement or funds that remains at the close of the SFSP and that exceeds a sponsor's expenditures must be retained and expended solely for food service operations or improvements.

Additionally, if the sponsor operates other Child Nutrition Programs, with DECAL's approval, the funds may be used to enhance food service operations of other the other Programs. For example:

Scenario #1: XYZ Childcare operates both the SFSP and the CACFP. At the end of SFSP operations in September, the Sponsor learns it has an excess balance of \$5,000. The sponsor plans to use the excess funds to replace their refrigerator used to store snacks in their CACFP At-Risk Afterschool Program. In addition, because the sponsor intends to participate in the SFSP next year and increase the number of SFSP feeding sites, the sponsor will also use the remainder of the excess funds to purchase new portable coolers to transmit meals.

Scenario #2: LMN County Schools, operated the SFSP in FFY 2014 under an agreement with DECAL. At the end of the 2014 summer year, DECAL's year-end reconciliation process showed the sponsor had an excess balance of \$9,000. LMN County Schools did not operate the SFSP the following year with DECAL, but instead served summer meals under the National School Lunch Program (NSLP) Seamless Summer Option (SSO) through the Department of Education. LMN County used the \$9,000 for FFY 2015 SSO start-up costs. Upon DECAL's request, LMN County provided documentation to verify the funds were properly expended.

Information specific to DECAL's Year-End Reconciliation Process for SFSP can be accessed at:

<http://www.decals.ga.gov/documents/attachments/SimplifiedSFSPAnnualYearEndReconciliationProcess.pdf>.

### **Allowable Uses of Excess Funds**

In addition to the examples mentioned above, there are a variety of allowable uses for CACFP and/or SFSP excess funds which include, but are not limited to:

- Improving kitchen facilities and equipment;
- Expanding the variety of creditable meals;

- Increasing the amount and variety of whole grains, fresh fruits and vegetables;
- Enhancing the service of vegetables by serving more legumes and dark leafy green vegetables;
- Enhancing monitoring or oversight of the food service; or
- Enhancing specialized meal services for children with food allergies.

### **Transferring the Use of Excess funds between CACFP and SFSP**

In Georgia, there are a number of institutions operating both the CACFP and SFSP. As previously mentioned, when an institution or sponsor determines it has accumulated excess funds at the end of the year, those funds may be used for allowable meal service improvements. Additionally, with DECAL's approval, the institution has the option to transfer the excess funds to its second (or third) child nutrition program (i.e., CACFP to SFSP or SFSP to CACFP). To do this, the institution must disclose the excess dollar amount in GA ATLAS within the *Budget Detail* section and indicate the Program to which funds are being transferred. Under *Other Program Revenue*, the institution must list the source and the dollar amount, (e.g., *Budget Detail/Other Program Revenue: Source of Funds*: "Excess SFSP reimbursement funds from SY 2015" - to CACFP; "\$4,000"). SFSP sponsors must also complete the **SFSP Total Projected Program Income Worksheet** (a form separate from GA ATLAS) to document the intended use of excess funds for the current Program year. When using this form, the sponsor must disclose both the amount of excess SFSP funds accumulated from the prior year(s) and the specific amount of funds transferred from another child nutrition program(s) under *Other Additional Program Income*. A copy of the form can be found on the DECAL web site at: <http://www.decals.ga.gov/BftS/FormList.aspx?cat=SFSP>).

Note: the institution or sponsor is prohibited from transferring excess funds to non-Program operations.

Once the budget is complete and submitted, DECAL will assess the Budget Detail and verify the source and designation of excess funds reported. Once approved, the excess funds must only be used for allowable Program costs and the institution must maintain records of all allowable expenses charged to the Program.

### **CACFP Institutions and SFSP Sponsors Not Returning to the Program**

Institutions and sponsors, not returning to or actively participating the CACFP, SFSP or another child nutrition program the following year, are required to return all excess funds to DECAL. This includes any institution that voluntarily terminates its Program agreement or is terminated and/or placed on the USDA National Disqualified List or the Georgia Disqualified List for non-compliance. DECAL will collect all excess funds from institutions and sponsors who do not operate Child Nutrition Programs the following year [7 CFR 226.14; 7 CFR 225.12].

For questions concerning this memorandum, please contact Sonja Adams, Policy Administrator at (404) 651-8193.